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SUBJECT: TURNING THE CORNER - CANADA'S NEW REGULATORY  
FRAMEWORK FOR EMISSIONS

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#### Summary

[1](#). (U) Saying "the time has come for action," Environment Minister John Baird released the government's long-awaited "Turning the Corner" plan, its framework to regulate emissions of greenhouse gases and air pollutants, in Toronto on April 26. The plan's targets will force significant action by Canada's main industry sectors: Mandatory targets will require industry to reduce the intensity of GHG emissions by 18 percent (from current levels) by 2010 and a further 2 percent annually thereafter. The plan sets nationwide caps for air pollutants (NOx, SOx, VOCs, and PM, as well as for mercury and benzene from some applications) that will see emissions of these pollutants fall from current levels by 20 percent (for PM) to 55 percent (for SOx) by [2015](#). The plan allows for several mechanisms industry can use to meet targets, ranging from own action to emissions trading (domestic, but Canada will actively explore opportunities with the U.S. and individual states) to the Kyoto Protocol's Clean Development Mechanism to payments (initially at the rate of C\$15 per tonne of carbon) into a technology fund. In making the announcement, Baird stressed other initiatives, such as reducing emissions from transportation and stricter efficiency standards for appliances, will continue to be important elements in Canada's overall climate change strategy.

[2](#). (U) Baird noted the new plan will impose significant costs on the Canadian economy, estimating it may cost up to C\$8 billion and cut up to 0.5 percent off GDP in its costliest years. However, he said the plan will yield C\$6 billion in health care savings annually by 2015, widely benefit the environment, and present opportunities for long-term economic gains primarily deriving from investments in technology.

13. (U) Reaction from opposition parties was swift and unanimous: Green Party leader Elizabeth May called it a "climate disaster plan," and other leaders and environment critics voiced similar views. Environmental groups were harsh in their own criticism, bemoaning along with the political opposition the plan's final rejection of Kyoto Protocol targets for GHGs. (Baird estimated Canada will meet the Kyoto target of cutting emissions by 6 percent from 1990 levels, but not until 2025.) Al Gore's comment (in response to an question from a Toronto audience) that the Plan was "fraud" prompted a swift retort from Baird and an offer to brief the former-VP on the Plan's specifics. Reaction from industry groups seemed less strident, though most called the targets aggressive, "difficult to meet," and more ambitious than those proposed by the Liberal government in 2005. In fact, Baird seemed largely unbothered, noting in post-announcement interviews that criticism from opposite ends of the interest spectrum had to be indication the plan was balanced.

14. (SBU) The government had announced its intention to release a new regulatory framework for GHG and air pollutant emissions last October in its Notice of Intent to regulate, Qemissions last October in its Notice of Intent to regulate, and last week followed through with "Turning the Corner." Critics have charged the government with trying to rule on the environment by administrative decree rather than legislation, ignoring the fact that the government announced its intentions six months ago and already has the authority to regulate as outlined in the plan under the Canadian Environmental Protection Act of 1999. Even if Turning the Corner makes good progress in establishing the Conservative's environmental credentials, such charges do highlight the continuing problem the government faces in what to do with the re-drafted Clean Air Act, the Kyoto Protocol

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Implementation Act already passed by the House and awaiting Senate action, and another similar bill in the House, none of which the government wishes enacted. With the odds on an early election getting longer, speculation is now shifting to the possibility the government might clear the legislative calendar by proroguing parliament.  
End Summary.

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#### A Long and Winding Road

15. (U) Stephen Harper and his Conservative Party campaigned on a platform that did not include climate change, and when his government took power in early February 2006, its stated focus was on law and order, health care, and tax breaks for the middle class. In March Environment Minister Rona Ambrose went so far as to state publicly "...the Kyoto accord is seriously flawed and the emissions targets it imposes on Canada are unrealistic and unattainable." Throughout the spring of 2006, opposition parties and the environmental NGO community railed against the government's lack of interest in climate change, but action in parliament produced only a private member's bill, the Kyoto Protocol Implementation Act (C-288), that would force the government to comply with

Canada's Kyoto Protocol obligations, if enacted.

¶6. (U) Introduced in mid-May 2006, C-288 proposed a compressed timetable to "ensure Canada takes effective and timely action to meet its obligations under the Kyoto Protocol." The bill would have authorized a cap-and-trade system with limits on permits to emit GHGs. It easily passed its first and second readings and was sent to committee just before the summer recess. With C-288 galvanizing the opposition, and public opinion polls showing concern for the environment was a top-of-mind issue, the Tories began giving greater prominence to the climate change and environment files by early summer and repeatedly promised that a "Made in Canada" plan to address climate change and air pollution would soon be unveiled.

¶7. (U) But it was not until October 19, 2006, that Rona Ambrose introduced the government's "Clean Air Act," Bill C-30, into the House (ref A). Opposition reception was extremely chilly, with NDP leader Jack Layton pointedly characterizing the bill as a "Xerox copy of a made-in-Washington solution, delayed." Environmental groups also reacted with dismay, with the Sierra Club calling it mostly "smoke and mirrors." On the other hand, business groups were largely relieved. The Canadian Chamber of Commerce applauded the Clean Air Act's movement away from QCommerce applauded the Clean Air Act's movement away from "unrealistic short-term Kyoto targets" to "more practical medium- and long-term targets...which will ensure that Canada takes the time to make the right decisions and that companies have time to develop, implement and commercialize new technologies."

¶8. (U) In fact, the Clean Air Act proposed a number of new initiatives and approaches (such as mandatory nation-wide regulation of air pollutants, greatly expanded efficiency standards for appliances, and mandatory intensity-based targets for GHG emissions) for Canada. At the same time the

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government issued a Notice of Intent to Regulate, which announced plans for the administrative measures it would use to regulate emissions of GHGs and air pollutants and promising targets would be issued in early 2007. (Importantly, the bulk of the measures the government contemplated in the Clean Air Act and the Notice of Intent depended for their legislative authority not on the new Act, but on the existing Canadian Environmental Protection Act.) But from the standpoint of the opposition and environmental groups, it failed the litmus test: it ignored Kyoto and seemed to pay more attention to air pollution than climate change.

¶9. (U) Shortly after its introduction, NDP leader Layton engineered referral of the bill to an ad hoc House committee for re-drafting (ref B), and the committee (on which Tories were in the minority) began revising the Act in January (about the same time John Baird replaced the ineffective Rona Ambrose as Environment Minister). On March 30 it emerged, now emphasizing hard caps for reducing greenhouse gas emissions and penalties for non-compliance (ref C). It came as no surprise that the government opposed the changes, but since it controlled the parliamentary calendar, the bill has not been re-submitted to the House for a final vote. The fate of C-288, the Kyoto Protocol Implementation Act, is a bit more certain: the bill is now before the Senate Energy and Environment Committee. It was, in fact, at that Committee's hearing on C-288 just two weeks ago that Baird announced his apocalyptic vision of the costs of implementing C-288 and meeting Kyoto.

Laying the Groundwork

¶10. (SBU) Release of the "Turning the Corner" framework and emissions targets had been promised in the Clean Air Act and the Notice of Intent and expected for months. Many observers

thought March, or early April, and John Baird himself had been saying for sometime the announcement would happen in "coming weeks." But by last week, Embassy began picking up increasing signs that the long-promised announcement was imminent. Baird's presentation on April 19 to the Senate committee considering C-288 of the economic modeling study demonstrating very hefty costs to the Canadian economy of meeting Kyoto commitments was the final clue. The estimated impacts (GDP down by 4 percent and 275,000 jobs lost, for example) were so dire, the study's major usefulness could only have been to set up an announcement of the government's own targets, whose economic costs would appear much more manageable in comparison.

¶11. (U) All question as to whether the targets would be released last week was resolved when a draft of John Baird's speech announcing them was accidentally faxed to the House opposition lobby late on April 24. Liberal environment critic David McGuinty told hastily assembled press that he could not reveal details under threat of prosecution, but he did describe the plan as potentially market-moving. Environment Canada essentially confirmed the fax was authentic by posting the text of Baird's speech late that night. As promised, Baird made his announcement in Toronto on the 26th, though the circumstances were unusual. After Tuesday's misstep, the government went to extraordinary lengths to control the official release of the actual plan. Separate segregated briefings for the media, business, and environmental groups were held in different locations, and the groups were locked in briefing rooms from noon to 4 pm, with no outside electronic access. Observers noted that security for the announcement rivaled that traditionally put in place for release of the federal budget, even though many details of the plan were already known.

The Plan Says -- on Emissions Targets...

¶12. (U) The government proposed its basic regulatory approach last October in its "Notice of Intent to Develop and Implement Regulations and Other Measures to Reduce Air

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Emissions," which in essence described the mechanisms by which the government intended to implement its Clean Air Act (ref A). Among the elements in the Notice of Intent, the government promised action on greenhouse gases and air pollutants, and stressed that its regulatory framework for both classes would depend for legislative authority largely on the Canadian Environmental Protection Act (1999), rather than the Clean Air Act itself. In the Notice, the government also announced that it would develop targets for emissions of greenhouse gases and air pollutants based on consultation, with provinces, territories, aboriginal peoples, and other stakeholders on the overall framework, and then with industry sectors on the specific targets for those sectors.

¶13. (U) The document released April 26, the Regulatory Framework for Air Emissions (the central element, really, of Turning the Corner) largely addresses air emissions from industry, which account for around half of Canada's emissions, with a view to stabilizing GHG emissions by 2010 and cutting emissions of air pollutants by up to 55 percent (from current levels) by 2012. Under the Framework, the government will apply short term targets for emissions of both classes to the following sectors: thermal power generation; oil and gas; forest products; smelting and refining (including aluminum and alumina); iron and steel; cement, lime, and chemicals production; and some mining. Final consultations with stakeholders on sector-specific provisions will conclude by the end of this year, and specific draft regulations will be gazetted in early 2008.

¶14. (U) In his announcement, Baird called targets for industry "concrete and challenging, yet realistic." In terms of the specifics for reducing GHG emissions, the Plan requires affected industries to reduce the intensity of their

GHG emissions by 18 percent from current levels by 2010, and by a further 2 percent per year from 2011 to 2015. The government calculates these targets will lead to an absolute reduction in GHG emissions as early 2010 and by 2012 at the latest. Over the medium-term the government estimates GHG emissions will fall from current levels by 20 percent by 2020, and in the longer-term by up to 70 percent by 2050. In justifying its intent to stick with intensity-based targets for GHGs, the government stresses that these will "allow (Canada) to reduce greenhouse gases now and prepare for deeper cuts later without de-railing Canada's economy."

¶15. (U) For air pollutants, the government said Turning the Corner will introduce for affected industries fixed caps on emissions of nitrogen oxides, sulfur oxides, volatile organic compounds and particulate matter. In some sectors, caps will also be introduced for other pollutants, such as mercury from thermal power generation and smelting, and benzene from the refining, natural gas, and iron and steel sectors. The framework will provide an adjustment period for industry, and caps will not go into effect until 2012-2015. The government intends to finalize the caps for specific sectors, as well as the exact date they will come into force by the fall of 2007. Qthe exact date they will come into force by the fall of 2007.

At the national level, the government expects the caps to force reductions from 2006 levels of around 40 percent for NOx, of around 55 percent for SOx, of around 45 percent for VOCs, and of around 20 percent for PM. The Plan states the government is holding to its commitment in the Notice of Intent last fall to impose targets that "are at least as rigorous as those in the U.S. or other environmental performance-leading countries."

...and on Mechanisms for Industry

¶16. (U) "Turning the Corner" provides industry a number of compliance mechanisms, ranging from own action to emissions trading to deposits into a climate change technology fund for non-compliers. New facilities will be allowed a three-year grace period, but will have to employ best available clean fuel and technology standards and make 2 percent annual improvements thereafter (putting them on the same schedule as existing plant after 2010). Firms will also be allowed a one

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time credit (up to 15 megatonnes nationally and distributed among firms proportionally) for verified abatement actions taken between 1992 and 2006. Industry will have access to domestic trading and domestic offsets, and firms can discharge up to 10 percent of their obligation with investments in Kyoto Protocol Clean Development Mechanism projects. Additionally the government announced intent to actively explore possible linkages to potential GHG trading mechanisms in North America, including at sub-national levels. The government says it would be willing to consider credit for participating in other emissions trading schemes globally in the future but that it will not purchase credits itself, domestically or internationally.

¶17. (U) As for the technology fund, firms could meet a portion of their GHG reduction obligations by paying into the fund at the rate of C\$15 per tonne of CO2 equivalent (between 2010-2012) and at the rate of C\$20 per tonne of CO2 equivalent during 2013, after which the rate would increase annually at the rate of growth of nominal GDP. Firms would be able to discharge up to 70 percent of their total obligation through such payments in 2010, but this limit will decline to zero by 2018. While complete details remain to be finalized, based in part on further consultation with industry, the provinces and territories, the government expects the fund will be administered by a non-profit, non-governmental body and used principally to fund technology deployment and related infrastructure projects that have a high potential to reduce GHG emissions in the near-term, such as carbon capture and storage infrastructure in Alberta or an east-west electricity grid. The fund may also help finance a



limited amount of R&D on transformative technologies with payouts over the mid- to longer term. Baird stressed that the fund will have no inter-province wealth transfer impacts and that payments into the fund will be used in the originating province or territory.

¶18. (U) For emissions of air pollutants, the Plan will establish a Canada-wide cap and trade system for NOx and SOx only, even though caps will be put in place also for VOCs, PM, and mercury and benzene from some industrial applications. The allocation of caps among facilities, as well as the exact date (between 2012 and 2015) the caps will come into effect will be determined in consultation with provinces, industry and other stakeholders in the coming months and announced, the government said, by June 2007. In the Plan, the government stresses its intent to set targets "at least as rigorous as those in the U.S." and re-iterates the important role U.S.-Canadian cooperation, such as through the Air Quality Agreement, will play in addressing pollution issues in shared cross-border airsheds. (In 2005 Canada and the U.S. completed a study under the Air Quality Agreement which suggested a cross-border cap and trade system for NOx and SOx could be feasible.) For the other regulated air pollutants, the CEPA provides the government with several compliance and enforcement provisions, including administrative and judicial orders and prosecution, with administrative and judicial orders and prosecution, with maximum fines of up to C\$1 million per day.

Also in the Portfolio

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¶19. (U) "Turning the Corner" does not reserve all its focus for Canada's industrial sector: the Plan also emphasizes the government's commitment to addressing emissions from transportation, strengthening energy efficiency standards, and improving indoor air quality. In addressing emissions in the transport sector (which contributes over 25 percent of GHG and air pollutant emissions) the Plan, for the first time in Canada, will impose mandatory fuel efficiency standards for cars and light trucks beginning with the 2011 model year, and the government says it wants to develop a "Clean Auto Pact" with the U.S. to harmonize standards for such vehicles. More broadly, the government will in the future develop additional regulation to continue to align Canadian vehicle and engine regulations with U.S. standards for motorcycles, outboard engines, snowmobiles, all-terrain vehicles, on-road

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heavy-duty engines, and off-road diesel engines. (Canada originally passed a Motor Vehicle Fuel Consumption Standards Act in 1982, but it was never put in use. Currently the auto industry is operating under the terms of a voluntary memorandum of understanding covering the period 2005-2010 that commits the industry to reducing GHG emissions by 5.3 megatonnes. The government's regulatory approach under an amended MVFCSA will continue to use fuel efficiency standards as the mechanism for reducing emissions.) Final regulations are expected to be in place by the end of 2008.

¶20. (U) Consumer and commercial appliances will also have to become more efficient. Amendments to the Energy Efficiency Act will institute efficiency standards for 20 presently unregulated products (such as vending machines, commercial refrigerators and freezers, commercial washers, traffic signals, residential furnaces, commercial boilers, and digital converter boxes) and strengthen standards for 10 already regulated products (such as air conditioners and heat pumps, dishwashers, icemakers, residential refrigerators and freezers, and dehumidifiers) between 2007-2012. Plus, the government will phase out the use of incandescent light bulbs in common applications by 2012. (This measure was actually announced on April 25 by Baird and Natural Resources Minister Gary Lunn.)

¶21. (U) The plan goes a bit further afield in committing Health Canada to develop guidelines and measures to improve

indoor air quality, starting with the development of a priority list of indoor air contaminants. The government also intends to issue regulations limiting the VOC content of architectural and industrial maintenance coatings, automotive refinishing coatings, and selected consumer products. The government expects that reducing the VOC content of solvents (which account for 21 percent of urban VOC emissions in Canada) will provide scope for significant gains in reducing VOC emissions overall.

#### Costs and Benefits

122. (U) In making the announcement, Baird admitted there will be costs to the Canadian economy from implementing the Plan. These costs could amount to up to C\$8 billion a year and knock 0.5 percent off Canada's GDP in the costliest years. However, Baird said, few jobs would be lost. (This in comparison to the costs of implementing C-288, the bill passed by the House to mandate adherence to Kyoto, which Environment Canada economic modeling estimated in a worst case scenario would slam Canadian GDP by over 4 percent and cost 275,000 Canadians their jobs.)

123. (U) On the other hand, Baird cited significant health benefits for Canadians, stemming largely from reductions in summer ozone levels (by 3 percent) and particulate matter (by 8 percent) by 2015. These reductions, said the minister, would eliminate 1200 premature deaths annually and save C\$6.4 billion annually in health costs. There would of course be major benefits for the environment, according to Environment Canada modeling. Agricultural production should benefit by at least C\$123 million, and losses of fisheries stocks and forests to acid rain should be reduced. Lower GHG emissions of forests to acid rain should be reduced. Lower GHG emissions would have a positive impact, of course, on climate change.

#### Survey Says: Reactions from Pols and ENGOS

124. (U) Reaction to the announcement was swift and pretty much unanimous, but it focused almost exclusively on the plan's climate change elements. Leaders of opposition parties of course panned it. NDP head Jack Layton told TV interviewers that Turning the Corner "wouldn't get the job done," and challenged the government to put the plan before parliament. That would be "democratic" and allow parliament to select the best elements from the environmental plans put forward by all the parties. Elizabeth May, head of Canada's Green Party, called it a "climate disaster plan" that was both shameful and despicable. She went on to announce that

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in her thinking the Kyoto targets were just a "modest first step." The real target, she continued, must be an 80 percent reduction from 1990 levels of GHG emissions. Liberal environment critic David McGuinty called the plan defeatist and bad for the country, continuing that by finally disavowing the Kyoto targets, Canada no longer stood any chance of convincing the U.S. to join the Kyoto Protocol(!)

125. (U) A representative of the World Wildlife Fund said the plan failed the test of what the planet needs; that it was on "the wrong side of science, the wrong side of business, the wrong side of public opinion, and the wrong side of Canada's international obligations." A Green Peace representative commented that in walking away from Kyoto, Canada was now alone, and international leaders were already commenting on the lack of Canadian action on Kyoto. Canada's best known environmental activist, David Suzuki, sought Baird out Friday to convey his disappointment. "What you promised is a long way from what you delivered," he said. The plan is "not enough."

126. (U) Even former-Vice President Gore, in Toronto on April 28 to present "An Inconvenient Truth" at an environmental trade show, got into the act, calling the plan (in response to a question) a "complete and total fraud...designed to

mislead the Canadian public." According to media reporting, Gore concluded the plan was "shocking," since the rest of the world looks to Canada for moral leadership. John Baird wasted no time, firing back in a statement that evening that it was "difficult to accept criticism from someone who preaches about climate change, but who never submitted the Kyoto Protocol to a vote in the United States Senate, who never did as much as Canada is now doing to fight climate change during eight years in Office..." Baird offered to meet with Gore "to discuss the climate change threat and our Government's tough plan to reduce Canada's emissions."

#### But Industry More Positive

127. (U) Early reactions from industry groups were a bit more positive, but hardly let the government off the hook. A fairly common view seemed to be that the targets would be difficult to meet and were more challenging than those proposed by the Liberals back in 2005 when they were in power, but that they were more "realistic" than current opposition proposals and would at least provide some guidance for business going forward. A few specifics: The Forest Products Association complained the plan did little to recognize and give credit for that industry's claimed 54 percent reduction in intensity of GHG emissions since 1990. A policy executive with the Canadian Chamber of Commerce worried about adding an extra layer of bureaucracy to handle the additional "regulatory burden." Alberta oil patch executives seemed to feel the plan would not threaten major oil sands developments, but would impose greater costs on the industry across the board.

128. (U) In speaking to the press after the plan's release an upbeat Baird claimed Turning the Corner was balanced. He cited criticism from both ends of the supposed "climate Qcited criticism from both ends of the supposed "climate change spectrum" as the best evidence the government had gotten the targets about right.

#### So, What about Kyoto?

129. (U) Baird admitted Canada won't reach its Kyoto Protocol target of reducing GHG emissions by 6 percent from 1990 levels by 2012, the end of the first commitment period. But he did say the reductions will put Canada on pace to meet that original Kyoto commitment in 2025. Officially, Canada continues to support Kyoto and remains active in discussions about an international climate change regime for the post-2012 period. Taking a page from the U.S. climate change play book, the government says effective future international cooperation on climate change will require all major emitting countries to do their part to reduce emissions.

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#### The Way Forward

130. (SBU) While the government now has an announced framework to regulate GHGs and already has the legislative authority to accomplish much of what it proposes in "Turning the Corner," there are pending items still to be finalized. These range from the technical (additional consultations with industry and the provinces will be needed through the end of this year to finalize sector-specific regulations) to the policy level. Clearly the government's most important policy decision will be how to handle the climate change legislation already in parliament. Given the somewhat tortuous progress to the present state of affairs, one suspects the government would prefer to regulate only by decree. One also suspects the opposition and environmental activists will be loath to let the government ignore the climate change legislation now pending before parliament. Proroguing parliament would solve the immediate problem by taking this legislation (the re-written Clean Air Act (C-30), the Kyoto Implementation Act (C-288), and a similar NDP bill (C-337)) off the table, but re-introducing some of this legislation would certainly be an



early order of business for the opposition in a new parliamentary session.

¶31. (SBU) The government also still faces the even greater challenge of managing public perceptions of its environmental record (which really does not suffer in comparison to the Liberal's record). How can the government sideline the pending legislation (through proroging parliament or by simply not submitting for royal assent a bill that has passed both chambers of parliament) without seeming cynical or manipulative or even (in a possibly emerging theme) anti-democratic? And, how can the government gain credibility on "green" issues in the face of unrelenting criticism from the Kyoto-centric press, environmentalists, and opposition? The government has to address both aspects of its environmental dilemma, and seems committed to the fray. But whether Turning the Corner will prove an effective weapon for the Conservatives in their battle to convince a skeptical electorate remains to be seen.

#### Canada's Emissions (a Postscript)

¶32. (U) Canada committed in the Kyoto Protocol to reduce its GHG emissions in 2012 to 6 percent below their 1990 levels of 599 megatonnes. By 2004, however, total GHG emissions had grown to 758 megatonnes, 26.5 percent above their 1990 level, and 34 percent above the Kyoto target. The latest business as usual projections from Natural Resources Canada put Canada's GHG emissions at 830 megatonnes in 2010 and 850 megatonnes in 2012, nearly 51 percent above the original Kyoto target. The government estimates that cuts embodied in "Turning the Corner" will bring total emissions down to the Kyoto target in 2025, and to 60-70 percent below present levels by 2050.

#### ¶33. (U) Sources of Current Canadian Emissions by Sector

	GHG (2004)	Pollutants (2002)
Agriculture	8 percent	10 percent
Commercial/ Residential Heating	11 percent	1 percent
QResidential Heating	11 percent	1 percent
Commercial/ Consumer Appliances	1 percent	8 percent
Industry	51 percent	52 percent
Transportation	25 percent	27 percent
Other	4 percent	2 percent.

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